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New York • London • Boston • Tokyo

530 5th Avenue, 7th Floor
New York, NY 10036
Tel: 212-884-9440
Fax: 212-884-9451/9452

288 Bishopsgate, 3rd Floor
London EC2M 4QB
Tel: 011-44-20-7814-6706
Fax: 011-44-20-7959-3344

One Boston Place, Suite 1650
Boston, MA 02108
Tel: 617-994-0500
Fax: 617-994-0501/0502

Email: pde@pdeeco.com

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For More Information Contact:

Dr. Allen Sinai, Decision Economics Inc., 212-884-9440
Dr. Margo Thorning, ACCF Center for Policy Research, 202-293-5811

**Macroeconomic Effects of a Temporary Reduction in the Tax Rate
on Repatriation of Foreign Subsidiary Earnings**

[\[1\]](#)

Allen Sinai, Decision Economics, Inc.

The Jumpstart Our Business Strength (JOBS) Act (S. 1637), as reported on October 2, 2003 by the Senate Committee on Finance, provides for a temporary one-year reduction in the tax rate on above average

[\[2\]](#)

repatriated earnings of U.S. foreign subsidiaries, to 5.25% versus the current 35%.

The purpose is to provide stimulus to business spending and the U.S. economy through increased outlays on capital goods, more business-to-business purchases, improved cash flow, strengthened corporate balance sheets, and higher employment.

Under the incentive provided in the JOBS Act, corporate funds that are kept abroad, generally unused for domestic U.S. purposes, might be repatriated to parent companies in the U.S. The enhanced domestic cash flow would then be used to purchase capital goods, pay down debt, improve balance sheets and to hire people, helping to “jump-start” the U.S. business sector into a strong expansionary mode not present to-date in the U.S. economic recovery. In the current business environment, stepped-up spending by business must be viewed as a key to achieving a sustained, and sustainable, increase in the rate of U.S. economic growth and for jobs creation.

Based on surveys of U.S. multinational companies performed by Price Waterhouse Coopers, LLC and J.P. Morgan Securities, estimates based on the surveys, and analyses of how the unrepatriated funds have been, and are being, used abroad, anywhere from \$265 billion to \$406 billion of repatriated funds could occur, relatively quickly, after passage of the Act. Using a lower end of the range estimate of \$300 billion of repatriated funds, an estimate of J.P. Morgan Securities, and assuming an effective date of January 1, 2004, simulations were performed with a large-scale quarterly macroeconomic model of the U.S., the

[\[3\]](#)

Sinai-Boston (SB) Model, to estimate approximate effects of the JOBS Act.

The results show (all relative to a Baseline):

- *Economy*—a significant increase in the growth of real GDP, 0.2 percentage points in 2004 and up

to 0.9 percentage points in 2005. The stronger effect in 2005 than in 2004 comes about because of time lags in business spending stemming from the use of additional cash flow for various purposes.

- *Capital Spending*—up sharply, particularly for equipment, relative to the Baseline, peaking at \$78 billion in 2005, with an average of nearly \$30 billion per year of additional capital outlays over 2004-2008. Capital spending by business is a primary use of the increased cash flow occasioned by the repatriated funds.
- *Jobs and Unemployment*—increased jobs and a fall in the unemployment rate, at least initially during the first three years after enactment, with the net increase of nonfarm payroll jobs approximately 129,000 persons per annum over 2004-2008. The jobs impact peaks at 666,000 above the Baseline in [\[4\]](#) the second year after enactment.
- *Corporate Balance Sheets*—improved from the increased, though temporary, increase in liquidity occasioned by the repatriated funds. Corporate financial assets are higher by some \$40 billion per year over the first three years after enactment and improved financial ratios, such as interest expenses relative to cash flow, occur on the large increase of cash flow occasioned by the JOBS Act. Nonfinancial corporate liabilities decline initially, then, net, are higher, ex-post, on new borrowing associated with increased outlays on capital goods, inventories, and for people.
- *Dividends*—increased dividends for nonfinancial corporations paid to individuals as one use of increased cash flow and from the improved economy, averaging \$14.2 billion higher per year over 2004-2008.
- *Taxes*—tax receipts to the federal government average net up near \$12 billion per year over 2004-2008, compared with the Baseline, due to increased taxes collected on the repatriation of funds that otherwise would have remained offshore, and the higher personal, corporate, excise, social insurance, and capital gains tax receipts that accrue on the improved economy.

Perspectives

Because of the *temporary* nature of the change in the tax law, the macroeconomic effects stemming from this change *alone* fade over time, resulting in real economic growth peaking in Year 2 then falling below the Baseline in Years 3-to-5. But there are “permanent” gains (over five years) in the levels of activity compared with the Baseline. Making the change in the tax law permanent would result in benefits to capital spending, the economy, and jobs over a longer period of time.

In the context of the current business recovery, the JOBS Act is supportive to economic activity and jobs creation at little, probably not any, cost to the federal government, through its temporary redressing of a disincentive to U.S. companies’ domestic use of funds generated through earnings abroad.

Table 1
**JOBS Act Foreign Dividend Repatriation Provision:
Macroeconomic Effects (Diff. from Baseline, Except as Otherwise Indicated)***

	2004	2005	2006	Avg. 2004-08
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Economy

Real GDP (Bils. '96\$)	\$20.2	\$111.1	\$76.6	\$41.2
Real GDP-Growth (% Chg.)	0.2	0.9	-0.4	0.0

Business Capital Spending, Total**

(Bils. '96 \$s)	13.8	78.0	63.0	29.9
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Plant (Bils. '96\$)

(Diff. in Level)	0.1	6.8	13.2	4.8
(% Chg. from Baseline)	0.0	2.9	5.4	2.0

Equipment (Bils. '96\$)

(Diff. in Level)	15.0	75.6	50.0	25.9
(% Chg. from Baseline)	1.4	6.4	4.0	2.2

Jobs

Employment (Nonfarm Payroll) (Mils.)	0.161	0.666	0.269	0.129
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Unemployment Rate (%)

	-0.1	-0.3	-0.2	0.0
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Inflation (% Chg.)

GDP Chain Price Index (Diff.)	0.0	0.0	0.1	0.0
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Corporate Balance Sheets (Bils. \$s)

Financial Assets-Nonfin. Corps.	78.2	65.6	37.3	40.0
Liabilities-Nonfin. Corps.	-83.9	62.9	211.0	113.5
Divs. Paid by Nonfin. Corps.	12.1	17.4	16.7	14.2

Tax Receipts (Bils. \$s)

Fed. Govt., Unified Budget	13.0	22.2	22.3	12.6
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Interest Rates (%)

Federal Funds	-0.03	-0.03	-0.01	-0.01
U.S. 10-Year Note	-0.09	-0.07	-0.03	-0.04

Stock Market

S&P500 Index				
(Pct. Chg. from Baseline)	1.3	4.9	6.7	4.6

Federal Budget Surplus/Deficit

(Bils. \$s, Unified)	13.4	28.5	35.4	15.1
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*Simulations with the Sinai-Boston (SB) Quarterly Macroeconometric Model of the U.S. Economy. For modeling purposes, the JOBS Act is assumed to be effective January 1, 2004. Accommodative monetary policy is assumed; the federal funds rate is held near Baseline levels. \$300 billion of repatriated funds estimated from passage of the JOBS Act over Year 2004 Baseline level, based on J.P. Morgan estimates.

**Chained 1996 dollars. Details do not add to total because of the chain price weight indexing.

[1]

Chief Global Economist, Decision Economics, Inc.; New York, Boston, London, Tokyo. This research was sponsored by the American Council for Capital Formation Center for Policy Research, the education and research affiliate of the American Council for Capital Formation.

[2]

The provision applies to the excess of repatriations over the average level in three of five preceding years. No

foreign tax credit is allowed for 85 percent of the foreign taxes attributable to repatriations eligible for the 5.25% rate.

[3]

The simulations with the SB Model assume accommodative monetary policy, i.e., unchanged monetary policy represented by the federal funds rate being held at Baseline levels, and no changes in the structure nor fundamental behavioral characteristics of the economy as a consequence of the change in tax law.

[4]

Structural changes in the labor market not present in history could produce fewer jobs than simulated by the SB Model. Negative adjustments to jobs were incorporated in model simulations because of Decision Economics research that suggests fewer increases of jobs in the U.S., relative to GDP, going forward.